



Class: BA342

Description: Socially
Responsible, Sustainable
and Ethical Business
Practice (Johnson)

Topic: Exam 1 Supplement

Note: Some BA 342 sections with Professor Johnson might have Chapter 9 replaced with a portion of Chapter 10 for Exam 1. This supplement covers the new Chapter 10 material. Please refer to Canvas for your section to confirm which chapters will be on your exam.

Chapter 10 – Global Ethical Issues

Corruption, Bribery & Questionable Payments

- **Corruption** – Attempting to influence the outcomes of important decisions in a non-public manner; abusing power; includes the following behaviors/activities:
 - Bribing government officials
 - Making “questionable” political contributions
 - Misusing company assets
 - Paying kickbacks
 - Collecting “protection” money
 - Price-fixing agreements
 - Insider dealing
- Corruption is found everywhere in the world, particularly in developing countries
 - Problem areas include Argentina, China, India, Russian, Pakistan, Turkey
- Corruption is a predictable result we see when economic and political institutions allow certain parties to take power while shutting others out
 - **Institutional voids** – When multinational businesses are left to enforce the laws of their home country
- **Bribery** – Offering something to gain an illicit advantage
 - Usually monetary, but can be in other forms
 - Illegal in most places
 - Considered unethical
 - **Some businesses contend that bribery is necessary in certain parts of the world:**
 - Bribes are necessary to do business and make profits
 - “Everybody does it”
 - Considered an accepted practice in some countries – normal and expected
 - Bribes are considered forms of commissions, taxes or compensation in order to conduct business
 - **The World Bank** estimates that more than **\$1 trillion** in bribes are paid out each year.
 - **The World Economic Forum** estimates the cost of bribes to be more than 5% of the world domestic product
- **Foreign Corrupt Practices Act (FCPA)** – One of the first initiatives by a major government to address corruption and bribery in international business
 - Passed in the USA in 1977
 - Made it a criminal offense for an officer of a US corporation to offer bribes to get or maintain business

- Provides for fines and prison sentences
- **Grease payments** – Facilitating payments; not the same as bribes

The Anticorruption Movement

- **Transparency International** – A special-interest group modeled after Amnesty International
 - World’s foremost anticorruption organization
 - Working toward a world free of all corruption
 - Calls on businesses to prohibit all forms of bribery (direct and indirect)
 - Calls on businesses to also implement a plan to counter bribery
- **Corruption Perception Index** – Ranks more than 175 countries by their perceived levels of corruption
 - Published by Transparency International; credited with putting Transparency International on the international policy agenda
 - In 2015, it ranked these countries as “highly clean”:
 - Finland, Denmark, New Zealand, Sweden
 - In 2015, it ranked these countries as “highly corrupt”:
 - Afghanistan, North Korea, Somalia
 - **The US was ranked 16th from the top**
- **Bribe Payers Index** – Ranks leading exporting countries by the degree to which international companies headquartered in those countries are likely to bribe senior public officials
 - Published by Transparency International
 - Countries perceived to pay more bribes:
 - China, Mexico, Russia, United Arab Emirates, Argentina
 - Countries perceived to be least likely to pay bribes:
 - Germany, Belgium, Netherlands, Switzerland
- **OECD Antibribery Initiatives** – Antibribery treaty and initiative signed onto by 29 industrialized nations
 - **Organization for Economic Cooperation and Development**
 - Treaty first agreed to in 1997
 - Member nations agreed to ban bribery and write laws modeled on the US FCPA
 - Criticized for not doing enough quickly enough
- **UN Convention Against Corruption** – Initiative developed in 2005
 - Created the opportunity to develop a global language about corruption and an implementation strategy
- **Individual Country Initiatives:**
 - **Great Britain** – Bribery Act
 - **France** – Financial Action Task Force
 - **Mexico** – Work has been inconsistent
 - **China** – Began campaigning against corruption in 2012

Reconciling the Ethics Traditions of Home & Host Countries

- **Companies** operating globally must achieve a balance between the cultural and moral standards of their home and host countries
 - **Ethical imperialism** – Focusing on the cultural and moral standards of the company's home country, even when doing business in the host country
 - Imposing the home country's standards in the host country
 - **Cultural relativism** – Focusing on the cultural standards of the company's host country
 - No other culture's ethics are better than any other's ethics
 - We judge things in the context of the home culture
 - **Management must ask itself:**
 - Which ethical standards will we use?
 - Which ethical standards transcend national borders?
 - What about worker and product safety?
 - What about fair treatment of workers?
 - What about consumer rights?
 - What about environmental issues?
 - **In the end, companies must strive for the broad middle ground**
 - This is a mix of the morals and cultural standards of both the home and host countries

Textbook Example – Phantom Expenses

*Case 12, page 668

- In this example, "Jane Adams" completed a sales training course with a major small appliance manufacturer. She was assigned as a trainee under "Ann Green," a productive sales rep with the company.
 - When filling out expense vouchers, Ann told Jane that the company's expense reporting caused reps to be underpaid versus their actual costs. She said that reps made up for this by padding their expenses under \$25 because these did not require receipts. The "rule" was to inflate expenses by 25%. Ann rationalized this by saying that the company underpaid its staff for their hard work.
 - Jane objected to reporting fictitious expenses and decided to report only her actual expenses. Ann became angry and said that this would expose the actions of all the other sales reps and could get people fired.
 - **Questions to ask:**
 - What are the ethical issues of this case?
 - What should Jane have done?
 - What would the consequences have been for Jane and the company if Jane had reported her actual expenses?
 - What ethical principles would be useful in this example?